

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Marquette Board of Light & Power		County Marquette	
Fiscal Year End June 30, 2007		Opinion Date October 7, 2007		Date Audit Report Submitted to State January 28, 2008			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Makela, Toutant, Hill & Nardi, P.C.			Telephone Number (906) 228-3600	
Street Address 201 West Bluff Street			City Marquette	State MI
Zip 49855				
Authorizing CPA Signature <i>Paul B. Nardi, CPA</i>		Printed Name Paul B. Nardi		License Number 1101020870

Audited Financial Statements
and Other Financial Information

MARQUETTE BOARD OF LIGHT AND POWER

Marquette, Michigan

June 30, 2007

Audited Financial Statements
and Other Financial Information

MARQUETTE BOARD OF LIGHT AND POWER

June 30, 2007

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Management's Discussion and Analysis

This annual report consists of a series of financial statements, notes to the financial statements, and other financial information. Following is a brief description of each statement and the notes.

The balance sheet presents the financial position of the Marquette Board of Light and Power (MBLP) on a full accrual, historical cost basis. This statement provides information about the nature and amount of resources and obligations for the years ended June 30, 2007, and June 30, 2006.

The statement of revenues, expenses, and changes in net assets provides the reader with the revenues and expenses by major category for the current fiscal year and the prior fiscal year giving the opportunity for a direct comparison of these items for the past two fiscal years. Increases and decreases in the individual line items on this statement can be analyzed and evaluated. This statement also indicates the change in net assets.

The statement of cash flows presents changes in cash and cash equivalents, resulting from operating, capital and related financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the MBLP's significant accounting policies, account balances and activities, material risks, obligations, commitments, contingencies, and any subsequent events.

After the financial statements and notes to financial statements, the MBLP presents other financial information. This information includes a schedule of operating expenses, schedule of utility plant in service, comparative operating statistics, and comparative financial and statistical information.

The following table summarizes the financial condition and operations for the MBLP for 2007 and 2006:

	June 30, 2007	June 30, 2006	Dollar Change	Percent Change
Current and other assets	\$ 15,392,948	\$ 15,695,488	\$ (302,540)	-1.93%
Restricted assets	5,102,483	5,051,703	50,780	1.01%
Capital assets	38,357,675	39,020,456	(662,781)	-1.70%
Total assets	58,853,106	59,767,647	(914,541)	-1.53%
Long-term liabilities	3,967,011	7,018,875	(3,051,864)	-43.48%
Other liabilities	6,505,777	5,888,254	617,523	10.49%
Total liabilities	10,472,788	12,907,129	(2,434,341)	-18.86%
Net assets:				
Invested in plant, net of related debt	35,677,925	33,571,631	2,106,294	6.27%
Restricted	2,210,963	2,210,715	248	0.01%
Unrestricted	10,491,430	11,078,172	(586,742)	-5.30%
Total net assets	\$ 48,380,318	\$ 46,860,518	\$ 1,519,800	3.24%

Management's Discussion and Analysis--Continued

	June 30, 2007	June 30, 2006	Dollar Change	Percent Change
Revenues:				
Electric revenues	\$ 23,009,316	\$ 22,284,699	\$ 724,617	3.25%
Sales to WE Energies	229,068	704,187	(475,119)	-67.47%
Interest earnings	848,865	726,470	122,395	16.85%
Other	704,193	629,802	74,391	11.81%
Total revenues	24,791,442	24,345,158	446,284	1.83%
Expenses:				
Electric expenses	24,922,131	23,275,417	1,646,714	7.07%
Interest and debt expense	248,740	336,119	(87,379)	-26.00%
Other	36,210	37,515	(1,305)	-3.48%
Total expenses	25,207,081	23,649,051	1,558,030	6.59%
Net income (loss)	(415,639)	696,107	(1,111,746)	-159.71%
Extraordinary item	1,725,000		1,725,000	
Capital contributions from customers	210,438	175,385	35,053	19.99%
Change in net assets	\$ 1,519,799	\$ 871,492	\$ 648,307	74.39%

Long-term liabilities outstanding decreased by 43.48%. This is due to the annual bond and interest payment that was made on July 1, 2007. All long-term debt currently outstanding will be paid by July 1, 2008. Other liabilities increased by 10.49%. This is primarily due to outstanding invoices for the Unit #3 shutdown performed earlier in the spring.

Sales to WE Energies decreased by 67.47%. This is due to fewer KWH sales as compared to FY 2006.

Interest and debt expense has decreased by 26.00% due to the declining bond principal outstanding.

Capital contributions from customers have increased 19.99% due to an increased amount of capital contribution projects.

Net assets have increased approximately \$1,520,000 during the fiscal year ended June 30, 2007, indicating that the Marquette Board of Light and Power's financial position has improved.

There were no significant variations between original and final budgets. Notable variations of budgeted amounts to actual amounts were: higher than budgeted miscellaneous revenue due to an extraordinary item representing lawsuit settlement proceeds of \$1,725,000; lower coal operation and maintenance costs due to not operating Unit #2 during December, January, and February; higher combustion turbine operation and maintenance costs due to greater than budgeted operation; and higher purchased power costs due to greater than budgeted KWH purchases.



MAKELA, TOUTANT, HILL & NARDI, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

201 West Bluff Street
Marquette, Michigan 49855

Members
American Institute of CPA's
Michigan Association of CPA's

REPORT OF INDEPENDENT AUDITORS

The Honorable Chairman and Members
Marquette Board of Light and Power
Marquette, Michigan

We have audited the accompanying financial statements of the Marquette Board of Light and Power (Board) as of and for the years ended June 30, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the Marquette Board of Light & Power's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marquette Board of Light and Power as of June 30, 2007 and 2006, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The information presented in Management's Discussion and Analysis on pages one and two is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Makela, Toutant, Hill & Nardi, P.C.

October 7, 2007



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Our goal is to help you meet yours!

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BALANCE SHEETS

MARQUETTE BOARD OF LIGHT AND POWER

	June 30	
	2007	2006
ASSETS		
UTILITY PLANT		
Electric utility plant in service--Notes A and C	\$ 117,733,051	\$ 115,317,907
Less allowances for depreciation and amortization	79,375,376	76,297,451
NET UTILITY PLANT	38,357,675	39,020,456
RESTRICTED ASSETS--Notes B and D:		
Bond and interest redemption fund	2,891,520	2,840,988
Bond reserve fund	2,198,000	2,198,000
Pinehill landfill escrow fund	12,963	12,716
TOTAL RESTRICTED ASSETS	5,102,483	5,051,704
CURRENT ASSETS		
Operation and maintenance fund--Note A:		
Cash and cash equivalents	1,155,829	528,673
Investments	1,954,920	2,716,333
	3,110,749	3,245,006
Accounts receivable, less allowance for losses in collection (2007--\$164,776; 2006--\$161,884)	1,285,340	1,247,951
Other receivable	1,725,000	
Inventories		
Coal	2,211,631	2,218,325
Diesel fuel	551,456	384,243
Materials and supplies	493,076	408,807
Prepaid expenses	97,224	64,399
TOTAL CURRENT ASSETS	9,474,476	7,568,731
INTERNALLY DESIGNATED ASSETS		
Customer electric rate stabilization fund	1,792,743	1,788,447
Turbine and major generating equipment overhaul fund	739,820	997,132
Replacement-risk retention fund	1,012,564	2,521,381
Investment--RHFV	200,186	
Improvement fund	58,300	733,311
TOTAL INTERNALLY DESIGNATED ASSETS	3,803,613	6,040,271
OTHER ASSETS		
Investment in UPPPA	2,090,698	2,037,550
Unamortized bond issue expenses	24,161	48,936
TOTAL OTHER ASSETS	2,114,859	2,086,486
TOTAL ASSETS	\$ 58,853,106	\$ 59,767,648

	June 30	
	2007	2006
NET ASSETS		
Invested in utility plant, net of related debt	\$ 35,677,925	\$ 33,571,631
Restricted	2,210,963	2,210,716
Unrestricted	10,491,430	11,078,172
TOTAL NET ASSETS	48,380,318	46,860,519
LONG-TERM LIABILITIES		
Revenue bonds less current maturities	2,679,750	5,448,825
Reserve for turbine and major generating equipment overhaul	739,820	997,132
Post-closure costs--landfill	547,441	572,918
TOTAL LONG-TERM LIABILITIES	3,967,011	7,018,875
CURRENT LIABILITIES (payable from restricted assets)		
Current maturities on revenue bonds	2,790,000	2,695,000
Revenue bond accrued interest payable	101,520	145,987
TOTAL CURRENT LIABILITIES--RESTRICTED ASSETS	2,891,520	2,840,987
CURRENT LIABILITIES (payable from current assets)		
Accounts payable	1,152,550	730,892
Employee compensation and related liabilities	125,799	116,448
Accrued sick and vacation pay	883,933	814,390
Customer deposits, including accrued interest (2007--\$21,394; 2006--\$21,000)	1,411,975	1,345,537
Post-closure costs--landfill	40,000	40,000
TOTAL CURRENT LIABILITIES	3,614,257	3,047,267
TOTAL LIABILITIES AND NET ASSETS	\$ 58,853,106	\$ 59,767,648

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

MARQUETTE BOARD OF LIGHT AND POWER

	Year Ended June 30	
	2007	2006
OPERATING REVENUES		
Electricity sales:		
Urban	\$ 13,200,713	\$ 12,906,047
Rural	7,810,320	7,487,151
Sales to Alger-Delta Co-op	968,308	854,500
Sales to Wisconsin Electric Power Company	229,068	704,187
Street lighting	327,198	331,017
Other municipal departments	702,777	705,985
Rent and other	673,594	599,764
TOTAL OPERATING REVENUES	23,911,978	23,588,651
OPERATING EXPENSES		
Production	11,454,801	11,363,952
Purchased power	2,739,263	1,488,238
Distribution and transmission	1,053,395	1,016,294
Customer accounting	555,617	491,914
Administrative and general	4,610,115	4,359,864
Provisions for depreciation and amortization of:		
landfill site, excluding amounts charged to other		
operating expenses (2007--\$102,006; 2006--\$117,050)	3,095,911	3,094,271
Charges from municipality in lieu of property		
taxes--City of Marquette	1,413,029	1,460,884
TOTAL OPERATING EXPENSES	24,922,131	23,275,417
OPERATING INCOME (LOSS)	(1,010,153)	313,234
OTHER INCOME (DEDUCTIONS)		
Investment income	848,865	726,470
Interest on refunding bonds	(203,040)	(291,975)
Delayed payment fees	30,599	30,038
Amortization of bond issuance expense	(45,700)	(44,144)
Other interest expense	(36,210)	(37,515)
TOTAL OTHER INCOME (DEDUCTIONS)	594,514	382,874
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	(415,639)	696,108
EXTRAORDINARY ITEM (See Note O)	1,725,000	
NET INCOME	1,309,361	696,108
CAPITAL CONTRIBUTIONS FROM CUSTOMERS	210,438	175,385
CHANGE IN NET ASSETS	1,519,799	871,493
NET ASSETS AT BEGINNING OF YEAR	46,860,519	45,989,026
	\$ 48,380,318	\$ 46,860,519

See notes to financial statements.

STATEMENTS OF CASH FLOWS

MARQUETTE BOARD OF LIGHT AND POWER

	Year Ended June 30	
	2007	2006
CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES		
Cash received from customers	\$ 23,911,416	\$ 23,675,127
Cash received for interest	930,825	877,973
Cash paid to suppliers and employees	(21,760,064)	(19,895,504)
Cash paid for interest	(247,507)	(349,051)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,834,670	4,308,545
CASH FLOWS FROM (USED BY) INVESTING ACTIVITIES		
Capital expenditures, net	(2,572,007)	(2,466,386)
Contributions from customers	210,438	175,386
Proceeds from maturities and sales of investment securities	4,974,616	4,922,891
Other	36,871	23,015
Proceeds from sale of equipment	(2,923,845)	(3,392,538)
Purchases of investment securities	(273,927)	(737,632)
NET CASH FLOWS USED BY INVESTING ACTIVITIES	(273,927)	(737,632)
CASH FLOWS USED BY NONCAPITAL FINANCING ACTIVITIES		
Principal payments on revenue bonds	(2,695,000)	(3,805,000)
NET CASH FLOWS USED BY NONCAPITAL FINANCING ACTIVITIES	(2,695,000)	(3,805,000)
NET DECREASE IN OPERATION AND MAINTENANCE FUND CASH, CASH EQUIVALENTS, AND INVESTMENTS	(134,257)	(234,087)
OPERATION AND MAINTENANCE FUND CASH, CASH EQUIVALENTS, AND INVESTMENTS AT BEGINNING OF YEAR	3,245,006	3,479,093
OPERATION AND MAINTENANCE FUND CASH, CASH EQUIVALENTS, AND INVESTMENTS AT END OF YEAR	\$ 3,110,749	\$ 3,245,006
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$ 1,309,361	\$ 696,107
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	3,197,917	3,211,321
Bad debt expense	24,000	24,000
Amortization of bond issuance expense and bond discounts	45,700	44,143
Settlement of lawsuit relating to flood event	(1,725,000)	
(Increase) Decrease in:		
Accounts receivable	(61,389)	67,495
Inventory	(244,788)	1,254,999
Prepaid expenses	(32,825)	2,899
Accrued interest receivable	81,960	151,503
Increase (Decrease) in:		
Landfill site post-closure care cost liability	(25,477)	(28,737)
Accounts payable	421,658	(1,223,696)
Employee compensation and related liabilities	9,351	(22,315)
Accrued sick and vacation pay	69,543	21,233
Customer deposits, including accrued interest	66,438	26,459
Reserve for turbine overhaul and generating equipment	(257,312)	140,209
Revenue bond interest payable	(44,467)	(57,075)
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 2,834,670	\$ 4,308,545

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

MARQUETTE BOARD OF LIGHT AND POWER

June 30, 2007

NOTE A--STATEMENT OF ACCOUNTING POLICIES

The accounting policies followed by the Board and the methods of applying those policies, which materially affect the determination of the financial position, other changes in equity, and results of operations are summarized below.

Description of Reporting Entity: The Marquette Board of Light and Power, Marquette, Michigan, was formed by a revision of the Charter of the City of Marquette, Michigan, in 1964 to operate the city's electric utility. The Board consists of five members, elected by the voters of the City of Marquette, each serving three-year terms. The Board appoints the director. The Marquette Board of Light and Power is owned by the City of Marquette, Michigan. The Board provides electrical service to the residents of the City of Marquette, as well as non-residents within an area of approximately 140 square miles outside the city limits. The Board, subject to confirmation by the Marquette City Commission, sets rates for light and power. The accompanying financial statements include only the Marquette Board of Light and Power and no other governmental agencies or departments of the City of Marquette.

The Marquette Board of Light and Power is accounted for as an Enterprise Fund. Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation and amortization) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting: The basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Revenues and expenses are recognized on the accrual basis, in accordance with accounting principles generally accepted in the United States of America and with the requirements of Act 2 of the Public Acts of 1968, which is the Uniform Accounting Act of the State of Michigan. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Financial Reporting:

The Governmental Accounting Standards Board has issued Statement of Accounting Standards Number 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments (SGAS 34). SGAS 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net assets, a statement of activities and changes in net assets, and a statement of cash flows. It requires the classification of net assets into the three components of invested in capital assets: net of related debt, restricted, and unrestricted. These classifications are defined as follows:

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE A--STATEMENT OF ACCOUNTING POLICIES--Continued

Invested in capital assets, net of related debt: This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted: This component of net assets consists of assets with constraints placed on their use through creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted: This component of net assets consists of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

Utility Plant: Utility plant acquired prior to 1940 is stated on the basis of values determined by independent appraisers as of that date. Subsequent additions are stated at cost. Costs of the utility plant related to providing service to additional customers are capitalized and, in some cases, a related fee is charged to customers and recorded as contributions from customers.

Additions, improvements, and other capital outlay that significantly extends the useful life of an asset are capitalized. Capitalization thresholds vary by asset category and by type of expenditure.

Depreciation and amortization are provided for on the straight-line method over the following estimated useful lives:

	<u>Estimated Useful Life</u>
Hydro license	30 years
Structures and improvements	33-50 years
Equipment	5-33 years

Gains or losses on normal disposals are not included in net income, but are recorded as adjustments of the allowances for depreciation. Gains or losses on extraordinary retirements or unusual disposals are recorded in net income in their year of occurrence.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE A--STATEMENT OF ACCOUNTING POLICIES--Continued

Inventories: Inventories of fuel, material, and supplies are valued at cost (not in excess of market) determined on the moving-average method.

Accrued Sick Leave: The Board has a policy of allowing employees to accumulate sick leave benefits. At retirement, certain terminations of employment, or employees with ten years or more of service are paid for one-half of the accumulated days at their current rate of pay. Such benefits are recorded when earned.

Unbilled Revenue: The Board recognizes revenues on the basis of monthly cycle billings to customers. Accordingly, unbilled revenue from billing date to June 30 has not been recorded. The cost of service rendered is recognized when incurred.

Cash and Cash Equivalents: The Board considers all demand deposits, time deposits, money market mutual funds and highly liquid debt instruments, purchased with an original maturity of three months or less, to be cash equivalents. Cash and cash equivalents are reported at the carrying amount which approximates fair value.

Investments: The Board reports investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices. Exceptions to this policy include the Board's investments in time deposits which are carried at cost and the investment in Upper Peninsula Public Power Agency which is carried at cost because there is no quoted market value for the investment.

State statutes authorize the Board to invest in bonds and other direct obligations of the U.S. government or its agencies; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Board is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements; bankers' acceptances of U.S. banks; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investments outlined above.

Statement of Cash Flows: The Board prepares the statement of cash flows to present the change in the operation and maintenance fund cash and equivalents and investment account balances.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE B--RESTRICTED AND DESIGNATED ASSETS

Rates: The Board will charge and collect rates, with the approval of the city commission, necessary to provide net revenues, as defined in the bond agreement, sufficient to cover annual debt service not less than 1.25 times.

Operation and Maintenance Fund: Transfers will be made from the receiving fund in amounts necessary to pay the next month's estimated operating expenses. This fund also includes assets reserved for customer deposits and short-term investments for payment of coal invoices.

Use of Estimates: The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires the Board's management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

The major funds created by provisions of the ordinances authorizing the issuance of revenue bonds and by Board designation are as follows:

Bond and Interest Redemption Fund: Transfers will be made from the receiving fund in amounts sufficient to pay bond and interest maturities.

Bond Reserve Fund: Transfers will be made to the bond reserve fund in an amount equal to 10 percent of the 2001A revenue bonds original issuance amount.

Replacement-Risk Retention Fund: Transfers will be made to the fund, as the Board determines necessary, to finance major distribution repairs and replacements and provide for potential claims not covered by existing insurance policies. Transfers to this fund are subordinate to payments in lieu of taxes.

Improvement Fund: Transfers will be made to the improvement fund, as the Board deems necessary for improvements, enlargements, and extensions of the system. Transfers to this fund are subordinate to transfers to the replacement-risk retention fund.

Pinehill Landfill Escrow Fund: The Board has established an escrow fund (based on tonnage) for the future closure of the landfill due to a state regulation.

Turbine and Major Generating Equipment Overhaul Fund: The Board has established a turbine and major generating equipment overhaul fund for future turbine and major generating equipment overhauls.

Customer Electric Rate Stabilization Reserve: This fund consists of funds reserved for plant expansion, retirement of debt, reduction or elimination of adverse fuel adjustments, and/or to avert a rate increase.

Retiree Health Funding Vehicle Fund: The Board has established a Retiree Health Funding Vehicle Fund to accumulate money for post employment benefits (primarily health care) to meet future liabilities.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE C--UTILITY PLANT

A summary of utility plant is as follows:

	June 30	
	2007	2006
Land and land rights	\$ 1,003,073	\$ 1,003,073
Landfill site	120,000	120,000
Hydro license	468,663	427,381
Structures and improvements	10,702,628	10,618,461
Equipment	105,438,687	103,148,992
	<u>117,733,051</u>	<u>115,317,907</u>
Accumulated depreciation	<u>(79,375,376)</u>	<u>(76,297,451)</u>
	<u>\$ 38,357,675</u>	<u>\$ 39,020,456</u>

A summary of utility plant activity for the year ended June 30, 2007, is as follows:

	Balance at Beginning of Year	Additions	Retirements	Balance at End of Year
Hydraulic production	\$ 6,155,414	\$ 85,246		\$ 6,240,660
Internal combustion	1,452,969	24,108		1,477,077
Turbine combustion	4,491,083	5,589		4,496,672
Steam production	66,608,944	343,981		66,952,925
Transmission	2,236,739	350,102		2,586,841
General plant and equipment	4,244,381	276,727	\$ (73,645)	4,447,463
Distribution	30,128,377	1,486,254	(83,218)	31,531,413
	<u>115,317,907</u>	<u>2,572,007</u>	<u>(156,863)</u>	<u>117,733,051</u>
Accumulated depreciation	<u>(76,297,451)</u>	<u>(3,197,917)</u>	<u>119,992</u>	<u>(79,375,376)</u>
	<u>\$ 39,020,456</u>	<u>\$ (625,910)</u>	<u>\$ (36,871)</u>	<u>\$ 38,357,675</u>

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE D--DEPOSITS AND INVESTMENTS

The composition of restricted assets, internally designated assets, and operation and maintenance fund assets reported on the balance sheet at June 30, 2007, are as follows:

	Cash and Cash Equivalents	Accrued Interest	Total
RESTRICTED ASSETS			
Bond and interest redemption fund	\$ 2,891,520		\$ 2,891,520
Bond reserve fund	2,198,000		2,198,000
Pinehill escrow fund	12,963		12,963
	<u>5,102,483</u>	\$ 0	<u>5,102,483</u>
INTERNALLY DESIGNATED ASSETS			
Customer electric rate stabilization fund	1,745,539	47,204	1,792,743
Turbine overhaul fund	714,971	24,849	739,820
Investment - RHFV	200,186		200,186
Improvement fund	58,300		58,300
Replacement-risk retention fund	1,003,585	8,979	1,012,564
	<u>3,722,581</u>	<u>81,032</u>	<u>3,803,613</u>
OPERATION AND MAINTENANCE FUND	<u>3,060,506</u>	<u>50,243</u>	<u>3,110,749</u>
TOTAL	<u>\$ 11,885,570</u>	<u>\$ 131,275</u>	<u>\$ 12,016,845</u>

Cash and cash equivalents can also be summarized into the following categories:

Cash on hand	\$ 1,701
Cash in demand accounts	271,891
Cash in savings accounts	519,925
Time deposits	5,019,068
Money market mutual fund	<u>6,072,985</u>
TOTAL	<u>\$ 11,885,570</u>

Custodial Credit Risk

At year-end, the carrying amount of the Board's deposits with financial institutions, including time deposits that are classified as investments, approximated \$11,599,000. Approximately \$840,000 of the Board's deposits were insured by the Federal Deposit Insurance Corporation (FDIC). The remaining balance of \$10,759,000 was uninsured and uncollateralized. Therefore, the Board is subject to custodian credit risk. Custodian credit risk is the risk that, in the event of a financial institution failure, the Board's deposits may not be returned to it. The Board places its deposits with high quality financial institutions. Although such deposits exceed federally insured limits, they are in the opinion of the Board subject to minimal credit risk.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE D--DEPOSITS AND INVESTMENTS--Continued

Investments

During the year ended June 30, 2004, the Board joined with six other municipal electric utilities and formed the Upper Peninsula Public Power Agency (Agency) a joint action agency created under Public Act 448 of the State of Michigan. The primary purpose of the Agency is to facilitate an ownership interest in American Transmission Company, LLC, for its members, with any investment revenues countering likely increases in wholesale transmission expenses. The Board transferred transmission assets with a net book value of \$746,390 and approximately \$902,000 in cash to the Agency in return for an approximate 68 percent ownership interest in the Agency. During the years ended June 30, 2007 and 2006, the Board made additional investments in the Agency in the amounts of \$54,618 and \$236,465, respectively. This investment is carried at cost.

NOTES TO FINANCIAL STATEMENTS—Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE E--LONG-TERM DEBT

Details of outstanding long-term revenue bonds as of June 30, 2007, are as follows:

Issue of October 11, 2001, 2.625 to 3.80%, net of \$20,250
discount, payable in variable annual installments through July 1, 2008 \$ 2,679,750

Maximum annual maturities total \$2,700,000. Bonds maturing in fiscal years 2008 and 2009 are subject to redemption prior to maturity at the option of the city, in such order as the city may determine, and by lot within a single maturity, on any interest payment date on or after July 1, 2007. Bonds called for redemption shall be redeemed at par and accrued interest to the date fixed for redemption.

The annual cash requirements to amortize all recorded debt outstanding, including interest payments, are as follows for each of the fiscal years ended:

Fiscal Year Ending June 30	July 1		January 1	Total
	Interest	Principal	Interest	
2008	\$ 101,520	\$ 2,790,000	\$ 51,300	\$ 2,942,820
2009	51,300	2,700,000		2,751,300
	<u>\$ 152,820</u>	<u>\$ 5,490,000</u>	<u>\$ 51,300</u>	<u>\$ 5,694,120</u>

The following is a summary of long-term debt transactions for the year ended June 30, 2007:

	June 30, 2006	Additions	Payments or Amortization	June 30, 2007
Revenue bonds payable	\$ 5,490,000		\$(2,790,000)	\$ 2,700,000
Less: unamortized net discount	(41,175)		20,925	(20,250)
TOTAL BONDS PAYABLE	\$ 5,448,825	\$ 0	\$(2,769,075)	\$ 2,679,750

Interest payments relating to the 2001A revenue bonds totaled \$247,508 and \$349,050 for the years ended June 30, 2007 and 2006, respectively. Other interest payments totaled \$43,055 and \$43,096 for the years ended June 30, 2007 and 2006, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE F--FUNDS AVAILABLE FOR DEBT SERVICE

Income available for debt service consists of the following:

	Year Ended June 30	
	2007	2006
Operating income (loss)	\$ (1,010,153)	\$ 313,233
Charges from municipality in lieu of property taxes	1,413,029	1,460,884
Provision for depreciation and amortization	3,197,917	3,211,321
Investment income	848,865	726,470
Delayed payment fee	30,599	30,038
	<u> </u>	<u> </u>
AMOUNT AVAILABLE FOR DEBT SERVICE	<u>\$ 4,480,257</u>	<u>\$ 5,741,946</u>

Debt service requirements consist of the following:

	Year Ended June 30	
	2007	2006
Principal--2001A	\$ 2,790,000	\$ 2,695,000
Interest expense--2001A	203,040	291,975
	<u> </u>	<u> </u>
TOTAL DEBT SERVICE	<u>\$ 2,993,040</u>	<u>\$ 2,986,975</u>
	<u> </u>	<u> </u>
Debt service ratio	<u>1.50</u>	<u>1.92</u>

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE G--NET ASSETS

Net assets represent the difference between assets and liabilities. The following is a summary of the individual components of the Board's net assets:

	June 30	
	2007	2006
Invested in utility plant, net of related debt:		
Net utility plant	\$ 38,357,675	\$ 39,020,456
Funds restricted for debt service	2,891,520	2,840,987
Revenue bonds payable	(5,469,750)	(8,143,825)
Accrued interest on long-term debt	(101,520)	(145,987)
INVESTED IN UTILITY PLANT, NET OF DEBT	35,677,925	33,571,631
Restricted:		
Bond reserve fund	2,198,000	2,198,000
Pinehill landfill escrow	12,963	12,716
TOTAL RESTRICTED	2,210,963	2,210,716
Unrestricted:		
Contributions from customers	3,185,504	2,975,066
Unrestricted	7,305,926	8,103,106
TOTAL UNRESTRICTED	10,491,430	11,078,172
TOTAL NET ASSETS	\$ 48,380,318	\$ 46,860,519

NOTE H--DEFINED BENEFIT PENSION PLAN

The Board participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer pension plan. The plan provides retirement, disability, and death benefits to plan members and beneficiaries in accordance with state statute and Board ordinance. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for the entire MERS system. The report may be obtained by writing to the Municipal Employees' Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917.

All employees' benefits, except for the executive director, vest after ten years of service. Current Board bargaining and nonbargaining active employees covered by the defined benefit plan who retire at or after the age of 60 with 10 years of credited service are entitled to an annual retirement benefit payable monthly in an amount equal to the sum of 2.25 percent of a member's five year average compensation, times the number of years service.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE H--DEFINED BENEFIT PENSION PLAN--Continued

Board employees who have retired prior to July 1, 1992, at or after the age of 60 with 10 years of credited service are entitled to an annual retirement benefit payable for life, in an amount equal to the sum of 1.2 percent times the first \$4,200 of a member's five-year final average compensation, plus 1.7 percent times the portion of final average compensation over \$4,200. Members of the management group who retire at or after the age of 60 with 10 years of credited service are entitled to an annual retirement benefit payable monthly in an amount equal to the sum of 2.25 percent of the member's five-year final average compensation times the number of years of service credit. All Board bargaining unit employees hired on or after July 1, 1999, are entitled to an annual retirement benefit payable monthly in an amount equal to the sum of 2.0 percent of the five-year final average compensation times the number of years of service (B-2). (MERS) provides for early retirement benefits for all active employees at age 55 with 15 years of service at a reduced retirement benefit and at age 55 with 25 years of service without reduced benefits and age 50 with 25 years of service at a reduced benefit.

Current, active Board bargaining, non-bargaining, and management employees covered by the defined benefit plan hired prior to July 1, 1999, are entitled to the annual cost of living benefit upon retirement (E-2).

The System also provides death and disability benefits. The benefit provisions and all other requirements are established by state statute and Board ordinance.

Active employees with ten or more years of service, who become disabled, receive an amount equal to the same as would be received under the normal retirement requirements, except that the reduction for retirement before age 60 is not applied. If the disability is from service connected causes, the amount of retirement allowance shall be computed as if the member had acquired exactly 10 years of credited service, if the actually acquired credited service is less than 10 years.

If an employee dies, the beneficiary receives a retirement allowance computed in the same manner as a service retirement allowance, but reduced to reflect Option II (100 percent joint and survivor) election. An employee's surviving spouse will receive a retirement allowance equal to 85 percent of the deceased members or deceased vested former members accrued retirement allowance computed in the same manner as a service retirement allowance, based on service and final average compensation at time of death.

Plan members are required to contribute percentages ranging from 4.7 percent to 4.8 percent of their annual salary to the plan. The Board is required to contribute an actuarially-determined rate. The contribution requirements of plan members and the Board are established and may be amended by the Board and the MERS Board of Trustees, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE H--DEFINED BENEFIT PENSION PLAN--Continued

For 2007, the Board's annual pension cost was \$475,320. The Board's actual contributions for 2007 were \$445,391. The required contribution was determined as part of the December 31, 2003, actuarial valuation using the entry age normal cost funding method. The actuarial assumptions included (a) 8.0 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 5.0 percent to 9.4 percent per year, and (c) 4.5 percent per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 4.5 percent. The actuarial value of the plan assets was determined using techniques that smooth effects of short-term volatility in the market value of investments.

<u>Fiscal Year Funding</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	276,564	100%	0
2004	271,728	100%	0
2005	352,968	100%	0
2006	441,780	100%	0
2007	475,320	100%	0

NOTE I--DEFINED CONTRIBUTION PENSION PLAN

The Board adopted a defined contribution pension plan effective August 1, 1998, covering all salaried employees hired on or after July 1, 1998. The Board is required to contribute 13.0 percent and covered employees are each required to contribute 5.0 percent of annual covered payroll. Employees may voluntarily contribute up to an additional 10.0 percent of their annual salary up to the maximum allowed under the Internal Revenue Code. For the year ended June 30, 2007, contributions by the Board totaled \$121,650 and contributions by the employees totaled \$46,788. For the year ended June 30, 2006, contributions by the Board totaled \$49,966, and contributions by the employees totaled \$23,862.

NOTE J--DEFERRED COMPENSATION PLAN

The Board offers its employees two deferred compensation plans created in accordance with the Internal Revenue Code, Section 457. One plan is administered by the International City Managers Association (ICMA) and the other plan by the Nationwide Retirement Solutions Corporation. The plans, available to all Board employees, permit an employee to defer a portion of current earnings until termination, retirement, death, or unforeseeable emergency.

The Board does not make any contributions to the plans; however, voluntary contributions made by qualified participants to the plans for the years ended June 30, 2007 and 2006, totaled \$281,490 and \$215,782, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE K--OTHER POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note E, the Board provides post-employment health care benefits to eligible retirees and their dependents. The benefits are provided in accordance with a collective bargaining agreement and Board policy. Retirees must be eligible to receive benefits from the MERS System to be covered; however, deferred vested retirees are ineligible for retiree medical coverage. All employees hired on or after July 1, 1995, will, upon retirement, receive full Board-paid health care premiums until they become eligible for reduced Social Security benefits, at which time the Board will continue the premium at the then existing rate level and the retiree will pay any annual premium increases until age 65 at which time coverage ceases. The Board funds the benefits on a pay-as-you-go basis. There are currently 87 contracts covering retirees and/or dependents receiving post-employment health care coverage paid for by the Board. For the years ended June 30, 2007 and 2006, the Board incurred premium expense of \$948,633 and \$942,723, respectively.

NOTE L--PURCHASE COMMITMENTS

The Board has a commitment to purchase a minimum of 140,000 net tons per year through 2008 of Western Coal from a supplier at a base contract price of \$21.60 (indexed quarterly) per ton at a heating value of 9,350 BTU's per pound. Of this commitment, 65,581 tons were received as of June 30, 2007, relating to the 2007 Great Lakes shipping season. The contract was extended through the end of the 2008 shipping season with a \$.50 per ton price reduction effective January 1, 2006.

NOTE M--PINEHILL LANDFILL SITE

The Board owns a Type III sanitary landfill site located in Negaunee Township, Michigan, which was used for the disposal of fly ash resulting from the burning of coal for the operation of the Shiras Steam Plant. The Board was notified by the Michigan Department of Natural Resources that the cell used at the landfill had resulted in degradations of the groundwaters located under the landfill. The Michigan Department of Environmental Quality (DEQ) approved the Board's feasibility study for the landfill. The Board subsequently submitted a Remedial Action Plan (RAP) for the site that was approved by the DEQ in February 1998. Based upon the approved RAP, the Board has recorded an estimated liability for the post-closure costs, which are expected to be limited to the annual costs relating to sampling and testing.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE N--RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board manages these risks in several manners.

The Board maintains coverage from commercial insurance companies as well as public entity risk pools and industry mutuals for a variety of risks including general and public officials liability, property, boiler machinery, fleet, inland marine, and workmen's compensation. The Board participates in public entity risk pools with other public utilities and various municipalities for coverage. These agreements allow for the pools to make additional assessments in order to make the pools self-sustaining. The Board is unable to provide an estimate of the amounts of additional assessments, if any, which may be required to make the pools self-sustaining. Certain other risks are borne by the Board, and the Board has established a Replacement-Risk Retention Fund (see Note B).

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years. The Board estimates that any actual claims that are pending or potential future claims, if any, will not have a material adverse effect on the Board's financial position, results of operations or cash flows and therefore the financial statements contain no provision for any such loss contingency.

NOTE O--EXTRAORDINARY ITEM

On May 15, 2003, the Marquette Board of Light and Power's hydro properties experienced a flood event caused by the failure of a dike at the Silver Lake dam. There was significant erosion along the Dead River and the earthen embankment to the south of the #3 (Tourist Park) dam abutment was washed away. Numerous board facilities were affected by the water and debris including the hydro unit #2 Hydro Plant basement, the roads to #2 Hydro Plant and Penstock, the #3 Hydro Plant and substation, the riverbanks, and other facilities. The Board filed claims against several other parties as a result of the flood event.

As of June 30, 2007, the Board has entered into settlement agreements with the involved parties with proceeds due to the Board of \$1,725,000. All parties in this matter have dropped their lawsuits as a result of the agreements. Accordingly, the Board has recorded a receivable and the related extraordinary revenue for this amount for the fiscal year ended June 30, 2007.

OTHER FINANCIAL INFORMATION



MAKELA, TOUTANT, HILL & NARDI, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

201 West Bluff Street
Marquette, Michigan 49855

Members
American Institute of CPA's
Michigan Association of CPA's

**REPORT OF INDEPENDENT AUDITORS
ON OTHER FINANCIAL INFORMATION**

The Honorable Chairman and Members
Marquette Board of Light and Power
Marquette, Michigan

Our report on our audits of the basic financial statements of the Marquette Board of Light and Power appears on page three. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial statements and schedules listed in the table of contents as other financial information are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Marquette Board of Light and Power. Such information for the six years ended June 30 has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Makela, Toutant, Hill & Nardi, P.C.

October 7, 2007



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OPERATING EXPENSES

MARQUETTE BOARD OF LIGHT AND POWER

		Year Ended June 30	
		2007	2006
PRODUCTION			
Steam Power Generation:			
Operation:			
Supervision and engineering	\$	96,062	\$ 78,609
Fuel		7,575,798	7,737,809
Steam expenses		926,136	998,612
Electric expenses		370,001	387,614
Other		271,143	287,222
		<u>9,239,140</u>	<u>9,489,866</u>
Maintenance:			
Supervision and engineering		91,187	55,260
Structures		152,885	108,237
Boiler plant		1,210,065	1,172,261
Electric plant		183,656	223,484
Other		23,553	5,511
		<u>1,661,346</u>	<u>1,564,753</u>
TOTAL STEAM POWER GENERATION		10,900,486	11,054,619
Peaking Unit:			
Operation:			
Fuel		331,049	85,795
Operation and maintenance		63,161	93,324
TOTAL PEAKING UNIT		394,210	179,119
Hydraulic:			
Operation:			
Supervision and engineering		19,528	13,413
Generation		6,583	7,451
Other		17,564	19,477
		<u>43,675</u>	<u>40,341</u>
Maintenance:			
Supervision and engineering		16,988	8,773
Structures		4,757	2,714
Reservoirs, dams, and waterways		75,026	47,005
Electric plant		19,659	19,865
Other			11,516
		<u>116,430</u>	<u>89,873</u>
TOTAL HYDRAULIC		160,105	130,214
TOTAL PRODUCTION		11,454,801	11,363,952

OPERATING EXPENSES--Continued

MARQUETTE BOARD OF LIGHT AND POWER

	Year Ended June 30	
	2007	2006
PURCHASED POWER	\$ 2,739,263	\$ 1,488,238
TOTAL PRODUCTION AND PURCHASED POWER	14,194,064	12,852,190
DISTRIBUTION AND TRANSMISSION		
Operation:		
Supervision and engineering	128,676	114,294
Lines	20,189	6,038
Street lighting and signal systems	1,902	2,743
Meters	68,708	82,504
Customer installation	63,007	51,902
Other	63,297	41,026
	345,779	298,507
Maintenance:		
Supervision and engineering	117,802	100,886
Lines, structures, and station equipment	475,409	523,009
Line transformers	10,101	7,729
Street lighting and signal systems	74,370	56,196
Meters and other	29,934	29,967
	707,616	717,787
TOTAL DISTRIBUTION AND TRANSMISSION	1,053,395	1,016,294
CUSTOMER ACCOUNTING		
Supervision	65,473	41,551
Meter reading	105,930	117,777
Billing and collection	356,698	318,181
Other	27,516	14,405
TOTAL CUSTOMER ACCOUNTING	555,617	491,914

OPERATING EXPENSES--Continued

MARQUETTE BOARD OF LIGHT AND POWER

	Year Ended June 30	
	2007	2006
ADMINISTRATIVE AND GENERAL		
Salaries	\$ 460,783	\$ 320,230
Office supplies and expense	35,014	35,479
Professional services	193,363	127,339
Workers' compensation and insurance and direct payments	70,445	78,170
Fire, liability, and other insurance	341,811	348,408
Customer sales and safety relations	59,003	65,280
Employees' welfare and benefits:		
Social security	358,610	346,155
Medical insurance	1,621,279	1,770,051
Life insurance and long-term disability	55,034	31,969
Vacations, sick leave, and funeral leave	401,230	413,432
Retirement	567,484	457,251
Paid holidays	121,525	107,276
Longevity pay	14,029	15,502
Safety program	46,927	32,571
Maintenance	61,042	35,633
Other	202,536	175,118
TOTAL ADMINISTRATIVE AND GENERAL	4,610,115	4,359,864
PROVISION FOR DEPRECIATION		
Plant (excluding amounts charged elsewhere (2007--\$102,006; 2006--\$117,050)	3,095,911	3,094,271
CHARGES IN LIEU OF PROPERTY TAXES PAID TO MUNICIPALITY		
	<u>1,413,029</u>	<u>1,460,884</u>
	<u>\$24,922,131</u>	<u>\$23,275,417</u>

UTILITY PLANT IN SERVICE

MARQUETTE BOARD OF LIGHT AND POWER

Year Ended June 30, 2007 (with comparative totals for 2006)

	ASSETS				ALLOWANCES FOR DEPRECIATION				NET VALUE June 30, 2007	NET VALUE June 30, 2006
	Balance at June 30, 2006	Additions	Retirement	Transfers	Balance at June 30, 2007	Provisions	Retirements	Balance at June 30, 2007		
HYDRAULIC PRODUCTION										
Land and land rights	\$ 88,249				\$ 88,249			\$ 88,249	\$	\$ 88,249
License	427,381	41,282			468,663			427,372		400,335
Structures and improvements	273,686				273,686			93,335		96,453
Reservoirs, dams, and waterways	4,375,286	43,964			4,419,250			2,573,470		2,608,895
Waterwheels, turbine, and generators	587,246				587,246			541,054		63,263
Roads, railways, and bridges	53,482				53,482			46,192		13,013
Accessory electrical equipment	348,859				348,859			12,384		8,452
Miscellaneous	1,225				1,225			342,528		
	6,155,414	85,246	\$ 0	\$ 0	6,240,660	116,573	\$ 0	2,993,327	3,247,333	3,278,660
INTERNAL COMBUSTION ENGINE PRODUCTION										
Structures and improvements	721,144	23,480			744,604			631,616	112,988	101,282
Fuel holders, producers, and accessories	207,002				207,002			94,193	112,809	116,270
Prime movers	274,836				274,836			14,589	274,836	274,836
Accessory electrical equipment	206,038	648			206,686			183,019	23,667	24,267
Miscellaneous	43,949				43,949			25,480	18,469	19,495
	1,452,969	24,108	0	0	1,477,077	32,078	0	948,897	528,180	536,150
TURBINE COMBUSTION										
Structures and improvements	300,285				300,285			281,570	18,715	28,714
Prime movers	163,024				163,024			201,231	(38,207)	(38,207)
Generators	3,476,159				3,476,159			3,262,319	213,840	329,597
Accessory electrical equipment	551,615	5,589			557,204			399,685	157,519	172,842
	4,491,083	5,589	0	0	4,496,672	146,668	0	4,144,805	351,867	492,946
STEAM PRODUCTION										
Land and land rights	951,797				951,797			6,722,146	951,797	951,797
Structures and improvements	8,495,464	6,556			8,502,020			22,010,450	1,779,874	2,008,941
Boiler plant and equipment	28,272,781	244,088			28,516,869			9,346,767	6,506,419	7,086,891
Turbogenerator units	11,066,382				11,066,382			1,719,615	1,719,615	2,027,419
Accessory electric equipment	6,224,305	80,637			6,304,942			4,988,763	1,316,179	1,421,567
Steam pollution control equipment	10,585,230				10,585,230			9,257,555	1,327,675	1,532,754
Miscellaneous power plant equipment	1,012,985	12,700			1,025,685			767,148	258,537	277,396
	66,608,944	343,981	0	0	66,952,925	1,780,650	0	53,092,829	13,860,096	15,306,765

UTILITY PLANT IN SERVICE--Continued

MARQUETTE BOARD OF LIGHT AND POWER

Year Ended June 30, 2007 (with comparative totals for 2006)

	ASSETS					ALLOWANCES FOR DEPRECIATION					NET VALUE June 30, 2006
	Balance at June 30, 2006	Additions	Retirement	Transfers	Balance at June 30, 2007	Balance at June 30, 2006	Provisions	Retirements	Balance at June 30, 2007		
TRANSMISSION LINE PROJECT											
Station equipment	\$ 1,520,915	\$ 295,568			\$ 1,816,483	\$ 876,475	\$ 36,575		\$ 913,050	\$ 903,433	\$ 644,440
Poles and fixtures	357,125	30,287			387,412	273,783	10,952		284,735	102,677	83,342
Overhead conductors and devices	358,699	24,247			382,946	160,782	10,998		171,780	211,166	197,917
	2,236,739	350,102	\$ 0	\$ 0	2,586,841	1,311,040	58,525	\$ 0	1,369,565	1,217,276	925,699
GENERAL											
Structures and improvements	686,660	54,151			740,811	606,575	10,139		616,714	124,097	80,085
Office furniture and equipment	932,231	108,874	20,000		1,021,105	479,286	52,002	20,000	511,288	509,817	452,945
Transportation equipment	1,526,933	56,668	53,645		1,529,956	913,200	96,521	51,179	958,542	571,414	613,733
Tools and work equipment	107,728				107,728	107,438			107,438	290	290
Laboratory equipment	108,894				108,894	96,181	1,871		98,052	10,842	12,713
Power operated equipment	547,518				547,518	541,647	5,485		547,132	386	5,871
Communication equipment	236,414	23,070			259,484	116,550	20,529		137,079	122,405	119,864
Miscellaneous equipment	98,003	33,964			131,967	31,362	17,872		49,234	82,733	66,641
	4,244,381	276,727	73,645	0	4,447,463	2,892,239	204,419	71,179	3,025,479	1,421,984	1,352,142
DISTRIBUTION											
Land and land rights	83,027				83,027					83,027	83,027
Substation equipment	2,992,696	72,918			3,065,614	1,819,113	132,370		1,951,483	1,114,131	1,173,583
Poles, towers, and fixtures	4,773,464	219,274	30,039		4,962,699	2,070,451	111,765	17,170	2,165,046	2,797,653	2,703,013
Overhead conductors and devices	6,784,320	283,464	26,294		7,041,490	3,271,744	170,183	12,250	3,429,677	3,611,813	3,512,576
Underground conduit	490,958	32,085			523,043	54,323	14,577		68,900	454,143	436,635
Underground conductors and devices	4,339,946	286,425			4,626,371	786,317	129,446		915,763	3,710,608	3,553,629
Line transformers	4,674,904	490,597	12,393		5,153,108	2,078,472	120,416	4,901	2,193,987	2,959,121	2,596,432
Services	1,895,073	51,749			1,946,822	892,163	48,142		940,305	1,006,517	1,002,910
Meters	1,294,647	49,974	14,492		1,330,129	495,568	35,845	14,492	516,921	813,208	799,079
Installation on customers' premises	22,417				22,417	22,254	217		22,471	(54)	163
Structures and improvements	141,222				141,222	95,163	4,703		99,866	41,366	46,059
Street lighting and signal systems	2,635,703	(232)			2,635,471	1,414,715	81,340		1,496,055	1,139,416	1,220,988
	30,128,377	1,486,254	83,218	0	31,531,413	13,000,283	849,004	48,813	13,800,474	17,730,939	17,128,094
	\$ 115,317,907	\$ 2,572,007	\$ 156,863	\$ 0	\$ 117,733,051	\$ 76,297,451	\$ 3,197,917	\$ 119,992	\$ 79,375,376	\$ 38,357,675	\$ 39,020,456

COMPARATIVE OPERATING STATISTICS

MARQUETTE OF BOARD OF LIGHT AND POWER

	Year Ended June 30		Megawatt Hours		Revenues/Expenses	
			Year Ended June 30		Megawatt Hours	
	2007	2006	2007	2006	2007	2006
OPERATING REVENUES						
Electricity:						
Residential:						
Urban	\$ 3,878,923	\$ 3,766,764	49,294	48,712	\$78.69	\$77.33
Rural	4,141,557	3,978,280	52,082	50,911	79.52	78.14
Commercial:						
Urban	3,004,274	3,145,168	43,812	43,987	68.57	71.50
Rural	987,805	868,903	11,678	11,088	84.59	78.36
Power:						
Urban	2,972,300	2,694,667	44,621	44,201	66.61	60.96
Rural	2,343,759	2,308,816	37,987	37,699	61.70	61.24
Other public authorities:						
Urban	3,345,216	3,299,447	54,912	55,971	60.92	58.95
Rural	337,199	331,152	4,573	4,775	73.74	69.35
Sales for resale:						
Alger-Delta Cooperative	968,308	854,500	16,063	15,934	60.28	53.63
Wisconsin Electric						
Power Company	229,068	704,187	4,681	9,086	48.94	77.50
Street lighting:						
Urban	244,200	248,087	2,084	2,068	117.18	119.96
Rural	82,998	82,931	679	674	122.24	123.04
Other Municipal Depts.	702,777	705,985	10,488	10,240	67.01	68.94
	23,238,384	22,988,887	332,954	335,346	69.79	68.55
Rent and other	673,594	599,763			2.02	1.79
	23,911,978	23,588,650			71.82	70.34
OPERATING EXPENSE	24,922,131	23,275,417			74.85	69.41
NET OPERATING INCOME (LOSS)	(1,010,153)	313,233			(3.03)	0.93
Other income	2,611,309	762,089			7.84	2.27
	1,601,156	1,075,322			4.81	3.21
Other deductions	291,795	379,215			0.88	1.13
NET INCOME	\$ 1,309,361	\$ 696,107			\$ 3.93	\$ 2.08

COMPARATIVE OPERATING STATISTICS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

	Megawatt Hours		Percentage	
	Year Ended June 30 2007	2006	Year Ended June 30 2007	2006
ELECTRICITY PRODUCED				
Delivered to customers	332,954	335,346	89.34%	89.57%
Consumed in operations	26,922	27,252	7.22%	7.28%
Unaccounted for	12,796	11,810	3.43%	3.15%
	<u>372,672</u>	<u>374,408</u>	<u>100.00%</u>	<u>100.00%</u>

COMPARATIVE FINANCIAL AND STATISTICAL INFORMATION

MARQUETTE BOARD OF LIGHT AND POWER

	Year Ended June 30					
	2007	2006	2005	2004	2003	2002
MEGAWATT HOURS						
Power use:						
Residential	101,376	99,624	95,817	96,512	97,492	92,162
Commercial	55,490	55,075	53,276	53,855	56,164	55,709
Power	82,608	81,900	76,845	76,642	74,056	65,973
Other public authorities	59,485	60,746	58,713	57,465	57,813	56,723
Alger Delta Co-op	16,063	15,934	15,517	15,735	16,197	14,648
Upper Peninsula Power Co.						108
Wisconsin Electric Power Co.	4,681	9,086	19,908	29,121	43,986	5,042
Street lighting	2,763	2,741	2,620	2,566	2,548	2,482
Other municipal departments	10,488	10,240	10,108	10,543	11,224	10,985
	<u>332,954</u>	<u>335,346</u>	<u>332,804</u>	<u>342,439</u>	<u>359,480</u>	<u>303,832</u>
Gross system peak demand (MW)	64.0	65.5	63.7	60.4	62.2	58.9
Plant system capability (MW)	105.1	105.1	105.1	105.1	105.1	105.1
FINANCIAL DATA (thousands)						
Revenues:						
Urban	\$ 13,201	\$ 12,906	\$ 12,215	\$ 11,486	\$ 11,388	\$ 11,106
Rural	7,810	7,487	7,020	6,711	6,417	6,184
Street lighting	327	331	316	302	299	299
Sale for resale:						
Alger Delta Co-op	968	855	805	768	762	710
Upper Peninsula Power Co.						14
Wisconsin Electric Power Co.	229	704	2,892	3,098	4,720	1,298
Other municipal departments	703	706	686	675	696	703
Other	674	600	647	739	589	574
	<u>23,912</u>	<u>23,589</u>	<u>24,581</u>	<u>23,779</u>	<u>24,871</u>	<u>20,888</u>
Expenses:						
Operating	20,413	18,720	19,959	16,765	17,438	13,734
Charges in lieu of property taxes paid to municipality	1,413	1,461	1,203	1,241	1,241	1,248
Provisions for depreciation and amortization	3,096	3,094	3,079	3,094	3,103	3,020
Interest and amortization, less other income	(594)	382	(168)	146	92	273
	<u>24,328</u>	<u>23,657</u>	<u>24,073</u>	<u>21,246</u>	<u>21,874</u>	<u>18,275</u>
Net income (loss) before extraordinary item	(416)	696	508	2,533	2,998	2,613
Extraordinary item	1,725				(122)	(550)
NET INCOME	<u>\$ 1,309</u>	<u>\$ 696</u>	<u>\$ 508</u>	<u>\$ 2,533</u>	<u>\$ 2,876</u>	<u>\$ 2,063</u>

COMPARATIVE FINANCIAL AND STATISTICAL INFORMATION--Continued

MARQUETTE BOARD OF LIGHT AND POWER

	2007	2006	2005	2004	2003	2002
Financial (thousands):						
Net plant in service and construction in progress	\$ 38,358	\$ 39,020	\$ 39,788	\$ 40,787	\$ 42,618	\$ 43,076
Bonds outstanding	\$ 5,470	\$ 8,144	\$ 11,929	\$ 15,605	\$ 19,187	\$ 22,467

SUPPLEMENTAL INFORMATION

MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (MERS)
SCHEDULE OF FUNDING PROGRESS (UNAUDITED)

MARQUETTE BOARD OF LIGHT AND POWER

Valuation Date December 31	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
2001	\$ 21,249,595	\$ 22,508,331	\$ 1,258,736	94%	\$ 3,720,528	34%
2002	\$ 21,204,453	\$ 23,824,315	\$ 2,619,862	89%	\$ 3,577,979	73%
2003	\$ 21,931,156	\$ 26,001,957	\$ 4,070,801	84%	\$ 3,911,098	104%
2004	\$ 22,438,510	\$ 27,151,787	\$ 4,713,277	83%	\$ 3,599,278	131%
2005	\$ 22,841,639	\$ 28,767,850	\$ 5,926,211	79%	\$ 3,522,833	168%
2006	\$ 23,664,055	\$ 30,133,912	\$ 6,469,857	79%	\$ 3,467,875	187%

Commencing with the 1993 actuarial valuation, the required contribution was determined using the entry age normal actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0 percent per year, compounded annually, (b) projected salary increases of 4.5 percent per year, compounded annually, attributable to inflation, and (c) additional projected salary increases ranging from 0.00 percent to 4.16 percent per year, depending on age, attributable to seniority/merit. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The unfunded actuarial accrued liability is being amortized as a level percent of projected payroll on an open basis over a period of 30 years.